



National Audit Office

**MEASURING UP**

HOW GOOD ARE THE GOVERNMENT'S  
DATA SYSTEMS FOR MONITORING PERFORMANCE  
AGAINST PUBLIC SERVICE AGREEMENTS?

**JUNE 2010**

---

**Comprehensive Spending Review 2007 covering the period 2008-2011**

**Review of the data systems for Public Service  
Agreement 6 led by the Department for  
Business, Innovation and Skills:**

*‘Deliver the conditions of business success in  
the UK’*

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

---

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds; £890 million in 2009-10.

# Contents

|  |           |
|--|-----------|
| <b>Summary</b>   | <b>4</b>  |
| <b>Findings and conclusions for individual data systems</b>                                | <b>10</b> |
| Indicator 1: International comparisons of UK competition regime with world's best          | 10        |
| Indicator 2: International comparisons of UK corporate governance regime with world's best | 12        |
| Indicator 3: Assessment of UK labour market flexibility                                    | 14        |
| Indicator 4: International comparisons of industrial gas and electricity retail prices     | 16        |
| Indicator 5: Total benefit/cost ratio of new regulations                                   | 18        |
| Indicator 6: Percentage by which administrative burdens are reduced across Government      | 20        |

The National Audit Office study team consisted of:  
Gillian Entwistle and Liz Fox under the direction of Helen Dixon. KPMG completed the detailed fieldwork and initial draft report working to the NAO. This report can be found on the National Audit Office website at [www.nao.org.uk](http://www.nao.org.uk)

For further information, please contact:  
Helen Dixon  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
Tel: 020 7798 7100  
Email: [helen.dixon@nao.gsi.gov.uk](mailto:helen.dixon@nao.gsi.gov.uk)

## Summary

### Introduction

1. This report summarises the results of our examination of the data systems used by the Government in 2009 to monitor and report on progress against PSA 6 “Deliver the conditions of business success in the UK”.

### The PSA and the Departments

2. PSAs are at the centre of Government’s performance measurement system. They are usually three year agreements, set during the spending review process and negotiated between Departments and the Treasury. They set the objectives for the priority areas of Government’s work.
3. This PSA is led by the Department for Business, Innovation and Skills (the Department). The Department was formed on 5 June 2009 following the merger of the Department for Business Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS). This PSA was previously led by BERR.
4. Data for the measurement of this PSA is provided by, amongst others, the Organisation for Economic Co-operation and Development (OECD), the World Economic Forum (WEF) and other Government Departments namely the Department for Energy and Climate Change (DECC) and HM Revenue and Customs (HMRC). Each PSA has a Senior Responsible Officer who is responsible for maintaining a sound system of control across Departmental boundaries that supports the achievement of the PSA. The underlying data systems are an important element in this framework of control.
5. At the time of our review, the most recent public statement provided by the Department on progress against this PSA was in the Annual Report published in July 2009. Since our review the Department has published the 2009 Autumn Performance Report<sup>1</sup> (APR 2009).

### The purpose and scope of this review

6. The Government invited the Comptroller and Auditor General to validate the data systems used by Government to monitor and report its performance. During the period September 2009 to January 2010, the National Audit Office (NAO) carried out an examination of the data systems for all the indicators used to report performance against this PSA. This involved a detailed review of the processes and controls governing:
  - The match between the indicators selected to measure performance and the PSA. The indicators should address all key elements of performance referred to in the PSA;

---

<sup>1</sup> Published December 2009 – URN 09/P36 available from [www.bis.gov.uk](http://www.bis.gov.uk)

- The match between indicators and their data systems. The data system should produce data that allows the Department to accurately measure the relevant element of performance;
  - For each indicator, the selection, collection, processing and analysis of data. Control procedures should mitigate all known significant risks to data reliability. In addition, system processes and controls should be adequately documented to support consistent application over time; and
  - The reporting of results. Outturn data should be presented fairly for all key aspects of performance referred to in the target. Any significant limitations should be disclosed and the implications for interpreting progress explained.
7. Our conclusions are summarised in the form of traffic lights (see Figure 1). The ratings are based on the extent to which Departments have:
- (i) put in place and operated internal controls over the data systems that are effective and proportionate to the risks involved; and
  - (ii) explained clearly any limitations in the quality of its data systems to Parliament and the public
8. The remaining sections of this report provide an overview of the results of our assessment, followed by a brief description of the findings and conclusions for each individual data system. Our assessment does not provide a conclusion on the accuracy of the outturn figures included in the Department’s public performance statements. This is because the existence of sound data systems reduces but does not eliminate the possibility of error in reported data.

**Figure 1: Key to traffic light ratings**

| <b>Rating</b>                  | <b>Meaning</b>   |
|--------------------------------|--|
| <b>GREEN (Fit for purpose)</b> | The data system is fit for the purpose of measuring and reporting performance against the indicator  |
| <b>GREEN (Disclosure)</b>      | The data system is appropriate for the indicator and the Department has explained fully the implications of limitations that cannot be cost-effectively controlled |
| <b>AMBER (Systems)</b>         | Broadly appropriate, but needs strengthening to ensure that remaining risks are adequately controlled  |
| <b>AMBER (Disclosure)</b>      | Broadly appropriate, but includes limitations that cannot be cost-effectively controlled; the Department should explain the implications of these                  |
| <b>RED (Systems)</b>           | The data system is not fit for the purpose of measuring and reporting performance against the indicator  |

**RED (Not established)**

The Department has not yet put in place a system to measure performance against the indicator

## Overview

9. The aim of this PSA is to measure the delivery of the conditions for business success in the UK. This PSA is supported by six indicators.
10. For this PSA we have concluded that the indicators selected to measure progress are broadly consistent with the scope of the PSA and afford a reasonable view of progress. Notwithstanding this, we have identified minor areas for further improvement in the measurement of the PSA.
11. At the time of our review, governance arrangements around the control framework were being revised following the creation of the Department in June 2009. The range of governance processes in place over PSAs included:
  - Departmental management board monitoring of PSA performance on a regular basis;
  - PSA programme board led by a senior responsible officer, responsible for risk management on individual PSA indicators with a remit to escalate risks to the management board; and
  - responsibility for data quality residing in the PSA sponsor directorate with a named data owner responsible for data compilation for each indicator, supported by analysts.
12. Overall quality assurance is the responsibility of the sponsor Directorate. While the Department has underlying quality and training measures in place there is no standardised quality control methodology applied across directorates. Quality control processes are generally undertaken by individual data owners and their team, who complete checks on their respective indicator. However in a number of cases reliance is placed on the controls in operation by other government bodies, which are not always reviewed regularly for adequacy.
13. The Department has procedural documentation and manuals in place documenting processes used to quality assure and calculate data, however in some cases procedures for identifying and assessing risks to data reliability, controls, and other processes involved in measuring targets were not always documented.
14. Where these issues have a specific impact on individual indicators, we explore them further in the next section of this report.
15. Figure 2 summarises our assessment of the data systems.

**Figure 2: Summary of assessments for indicator data systems**

| No | Indicator   | Rating                         |
|----|---|--------------------------------|
| 1  | International comparisons of UK competition regime with world's best                        | <b>GREEN (Fit for purpose)</b> |
| 2  | International comparisons of UK corporate governance regime with world's best               | <b>GREEN (Fit for purpose)</b> |
| 3  | Assessment of UK labour market flexibility  | <b>AMBER (Systems)</b>         |
| 4  | International comparisons of industrial gas and electricity retail prices (including taxes) | <b>GREEN (Disclosure)</b>      |
| 5  | Total benefit/cost ratio of new regulations   | <b>AMBER (Systems)</b>         |
| 6  | Percentage by which administrative burdens are reduced across Government                    | <b>AMBER (Systems )</b>        |

16. Our main conclusions on the PSA are:

- Indicators selected to measure this PSA's progress are broadly consistent with the scope of the PSA and provide a reasonable view of progress. However, weaknesses have been identified with respect to indicators 3, 5 and 6:
  - i. For indicator 3, at the time of our review we concluded that the Department should assure itself over the quality of data provided from external sources to ensure that it is fit for purpose and proportionate. The Department should also formally record its assessment of risks around data collection, and should formally document the operation of its key controls surrounding the central processing and analysis of data. Since our review the Department has provided additional commentary covering its consideration of the reliability of the source and collection of the data it uses to ensure it is fit for purpose.
  - ii. For indicator 5, the Department should highlight the limitations of data collected through the completion of Impact Assessments and their subsequent submission to the Impact Assessment Library. A recent NAO review of Government Impact Assessments concluded that there were several areas of concern with the use of Impact Assessments as a source of data, particularly with the underlying supporting data for these Impact Assessments in terms of presentation, completeness and accuracy.

iii. For indicator 6, the imprecision inherent in the original measurement methodology means that the estimates of administrative burdens for Government Departments are indicative in nature due to the small sample size used. The Department should highlight the limitations of data provided by HMRC as part of this indicator's measurement. As the lead reporting Department for PSA 6, BIS should ensure that, in light of the weaknesses identified, assurances are provided to the PSA 6 Delivery Board over the quality of data provided by HMRC relevant to this indicator. The Department should also report the inconsistencies in the way the claimed reductions in administrative burdens for Government Departments are calculated. The NAO reported in 2009 that the reported reductions in administrative burdens claimed were not calculated on a consistent basis. Departments used different approaches to estimating the value of savings, including variations in:

- the detail of calculations and the extent to which businesses were asked to verify them;
- the treatment of common issues, such as expected take-up of revised requirements; and
- procedures to monitor and challenge claimed savings.

The introduction of the External Validation Panel has gone some way to addressing these issues.

17. We recommend that the Department:

- obtains formal data quality assurances, where appropriate, from its data providers for indicator 3 and it should record its assessment of risks around the collection of this data;
- makes additional disclosures regarding weaknesses in data provided by Impact Assessments for indicator 5; and
- highlights the limitations in data provided by HMRC for indicator 6 and that the estimates of administrative burdens are indicative in nature and that there are inconsistencies in the way reductions in administrative burdens are calculated.

We are pleased to report that, since our review, the disclosures have been improved in the APR 2009, but there are still some areas to address.

### **Assessment of indicator set**

18. In undertaking the validation we read the documentation associated with the PSA, including the Delivery Agreement and considered whether the indicators selected to measure progress are consistent with the scope of this PSA.

19. We conclude that the indicators selected afford a reasonable view of progress; however an aspect of performance measurement is missing. Whilst the indicators



within PSA 6 offer varied measures of the conditions required to deliver business success, the PSA does not consider some of the broader issues, including:

- access to/the availability of capital finance within the UK business economy;
- access to business grant funding;
- skill set profile of the workforce; and
- the impact of different Business Rates.

20. The above considerations may also provide a useful insight into the measurement of the conditions of business success in the UK. Further development of the PSA 6 indicator set, as highlighted above, would enhance the measurement of progress and would better reflect the intentions expressed in the Delivery Agreement.

## **Findings and conclusions for individual data systems**

21. The following sections summarise the results of the NAO's examination of each data system.

### **Indicator 1**

#### **International comparisons of UK competition regime with world's best**

##### **Conclusion: GREEN (Fit for purpose)**

22. We have concluded that the data system underlying this indicator is fit for purpose of measuring and reporting performance against the indicator.

##### **Characteristics of the data system**

23. The data system involves a bespoke survey of 15 countries, comprised of the world's major economies and top competition regimes. The countries surveyed are the same as those included in previous versions of this survey to ensure comparability and consistency in results. The Department commissioned a firm of consultants to undertake the survey.

24. The Department assesses progress against the indicator by commissioning a peer review of Competition Policy; a survey of experts in the competition field from the UK and abroad. The peer review was undertaken by consultants to assess the varying aspects of the competition regime in the 15 participating countries.

25. The success criterion for this indicator is clearly defined as the UK maintaining or improving its current position against the other participating countries as evaluated by this survey.

26. The survey is undertaken every 3 years to coincide with Comprehensive Spending Review (CSR) periods. The most recent peer review survey was carried out in 2007 for CSR04 and showed that the UK had maintained its third position behind the US and Germany.

27. The Department will again appoint consultants to undertake the next Peer Review in 2010. This will follow a consistent methodology to the 2007 review.

28. The Department also takes into account the results of the Global Competition Review survey of enforcement agencies. This is a survey into which the Department has no input, but which acts as a secondary source of information to the Peer Reviews. The survey considers the competition law and policy of participating countries and their potential impact as barriers to competition. The perceived limitations of this survey and its supplementary status in reporting against the indicator have been disclosed in the Department's Annual and Autumn Performance Reports.

## Findings

29. The Department has established robust arrangements to ensure data informing the Peer Review of Competition Policy is appropriately collected, processed, analysed and reported. In particular, the Department has established a Steering Group to oversee the process. At various strategic points throughout the review the Steering Group challenged the process including survey design and sampling, review of results and identification of interviewees participating in the data collection process.
30. There are clear processes in place for the collection of data from the data provider together with arrangements to ensure the data are processed consistently over time.

## **Indicator 2**

### **International comparisons of UK corporate governance regime with world's best**

#### **Conclusion: GREEN (Fit for purpose)**

31. We have concluded that the data system underlying this indicator is fit for purpose of measuring and reporting performance against the indicator.

#### **Characteristics of the data system**

32. The Government has invited the World Bank to benchmark the UK's corporate governance regime against the Organisation for Economic Co-operation and Development (OECD) principles of corporate governance. The OECD principles are an internationally accepted standard which have been in place since 1999. The World Bank conducts numerous corporate governance assessments under the 'Reports on the Observation of Standards and Codes' initiative. The Department reviewed the procedures for data collection and assessment of Corporate Governance regimes undertaken by the World Bank. The Department is satisfied that these data collection and analysis processes are robust.
33. The World Bank has yet to publish its report hence the Department has commented that the indicator is 'not yet assessed' in its Autumn Performance and Annual Reports to date. In order to gain further assurance over the data provided, the Department was invited by the World Bank to comment on the draft reported findings. This allowed the Department to ensure that findings were consistent with its own expectations.
34. A World Bank assessment is underway to benchmark the UK's corporate governance regime against good practice principles defined by the OECD. The World Bank has yet to publish its report. The Department has stated that the World Bank report will be the primary data stream to be used to formally assess the indicator. The Department also discloses the results of the World Economic Forum's annual survey on global competitiveness. This is a survey into which the Department has no input, but which acts as a secondary source of information. The Department has disclosed the perceived limitations of this survey and its supplementary status in reporting against the indicator in its Annual and Autumn Performance Reports.

#### **Findings**

35. The data system allows an assessment of performance against the indicator, but it could be considered inconsistent with the Department's published Measurement Annex. The Measurement Annex states that an initial peer review will establish a baseline for international comparisons of the UK corporate governance regime with the world's best. This may give readers an expectation that the Department will provide a ranking of the UK regime against those of other countries. The

Department does not intend to report this information as the World Bank will benchmark the UK's corporate governance regime against accepted good practice, but it will not provide international comparisons.

36. The Department's published Measurement Annex for this indicator states that a Standard & Poor's (S&P) report was expected to be published and used to comment on the UK corporate governance regime. This report has not been produced by S&P, and neither does the Department expect it to be in the near future. However, the Department does not expect this to impact on its ability to assess progress against the indicator as other information is available including the World Bank's benchmarking exercise. At the next available opportunity, the Department should update the indicator's Measurement Annex to highlight that the S&P report will not be used in the measurement and reporting of this indicator.

### **Indicator 3**

#### **Assessment of UK labour market flexibility**

##### **Conclusion: AMBER (Systems)**

37. We have concluded the data systems are broadly appropriate, but need strengthening to ensure that risks around data collection are adequately controlled.

##### **Characteristics of the data system common to both measurements**

38. This indicator is assessed using two measures. The primary indicator is called the Policies and Institutions Index of Labour Market Adaptability (P&I ILMA). The indicator measures the way in which labour market frictions enhance or impede transactions between employees and employers in the labour market. Examples of labour market frictions include: labour disputes, employment tribunal cases and skills shortages.

39. The secondary indicator is described as the Broader ILMA. In addition to the measures used in the P&I ILMA, it measures changes in employment and wages levels in response to changes in the wider economy. After consultation with senior Government economists and academics on defining market flexibility and the specification of the indicator, the Department decided that these two measures were appropriate.

40. The P&I ILMA data system consists of 19 sub-measures. There are an additional six measures for the secondary indicator, the Broader ILMA. Primary data sources for both are the Labour Force Survey (LFS) and National Accounts (Central Government financial statements), both of which are provided by the Office of National Statistics (ONS). Data are also provided from the following sources: Health and Safety Executive, OECD, World Economic Forum (WEF), Employment Tribunals Service (ETS) and the Confederation of British Industries (CBI). The Department extracts eleven data sets from the LFS for use in the P&I ILMA (16 for the secondary Broader ILMA measure). There is a data sharing agreement in place with the ONS which facilitates the Department's access to necessary LFS information. All other data are publicly available data.

41. The sub-measures are a mixture of a survey based on statistics and administrative records. For all data streams, source data collection is performed by a third party. With the exception of the data extracted from the LFS, the Department does not have formal assurances over the quality of data from its data providers. The LFS was recently data quality reviewed by the UK Statistics Agency (UKSA). No issues relating to data used in this indicator were highlighted in the UKSA review.

42. All sub-measure data are collected quarterly by the Department and are recorded in a central spreadsheet. The data are analysed in the following categories: Government taxes; Government regulation; Freely chosen employment –

employee; Freely chosen employment – employer; Labour market frictions; and Participation. A Department statistician maintains records, commencing from 1994, and reviews information trends to identify outliers. Sub measures are then comparable and can therefore be totalled to establish the ILMA outcome.

43. The ILMA is reported graphically and compared with a baseline set at quarter two of 2005 (the start of the previous CSR period). The reported output is reviewed by a Department Economist who then prepares commentary on the 2009 result and on the trend of the ILMA movement. This is further reviewed by the Department's PSA 6 Delivery Board prior to inclusion in its Autumn/Annual Reports. Success and failure thresholds are defined in the indicator's Measurement Annex. Failure is defined as a downward movement of 10% or more below the set baseline and success is defined as maintaining the index at or above baseline.

### **Characteristics specific to the Broader ILMA**

44. The Broader ILMA includes six additional sub-measures under two new categories: Income changes and Employment changes. These additional sub-measures are derived from the LFS and National Accounts (central government financial statements) which are published by the ONS. The collection, analysis and reporting of data associated with the additional sub-measures is undertaken in the same way as for the P&I ILMA.

### **Findings common to both measurements**

45. In accepting data extracted from the LFS, at the time of our review we found that the Department has not formally documented:

- evidence that the other sources of information are fit for the purpose for reporting against the indicator;
- evidence that levels of risk around data collection have been considered; and
- data quality assurances from the data provider to confirm the robustness of the data informing the sub-measures. However, the Department has confirmed that throughout 2010 it will obtain data quality assurances from data providers.

Since our review the Department has provided additional commentary covering its consideration of the reliability of the source and collection of the data it uses to ensure it is fit for purpose.

46. The Department has not formally documented the operation of its key controls surrounding the central processing and analysis of data. Furthermore, there was no evidence of senior officer review of the ILMA spreadsheet which contains all data stream processing and analysis performed by the Department. Whilst the Department does have guidance notes in place highlighting the process for the collection of data from source providers, controls around spreadsheet access, data editing and review were not clearly documented.

## **Indicator 4**

### **International comparisons of industrial gas and electricity retail prices**

#### **Conclusion: GREEN (Disclosure)**

47. We have concluded that the data system is appropriate for the indicator and the Department has explained fully the implications of limitations that cannot be cost-effectively controlled.

#### **Characteristics of the data system**

48. The data system in place to calculate performance against this indicator is based on UK National Statistics (produced by DECC) and European Official Statistics (produced by Eurostat), the outcome of which are reviewed and challenged by the Department to ensure that information provided is aligned to the Department's expectations.

49. The assessment of performance against the indicator is based on European National Statistics data for gas and electricity prices for small, medium and large business consumers in the EU-15 countries. The UK data is a National Statistic and all other data are European Official Statistics provided by Eurostat.

50. The data are provided by Eurostat to the Department of Energy and Climate Change (DECC). There is limited data processing and analysis required, and this is carried out by DECC.

51. DECC reports to BIS on a quarterly basis. The reporting from DECC is reviewed and challenged by the PSA 6 Delivery Board and the Energy Team at BIS to ensure that information provided is aligned to its expectations.

52. The data system has defined success criteria – Average UK energy prices must be less than 15% in excess of the EU-15 median level over the CSR07 period. Although this is highlighted in the PSA 6 Delivery Plan, it is not formally recorded in the indicator's Measurement Annex.

#### **Findings**

53. There is a robust data system in place, underpinned by National Statistics data that are sufficiently reviewed and challenged by the Department to ensure that data provided are consistent with expectations and historical comparative data. Furthermore, results are clearly reported, in both narrative and graphical form.

54. The data system considers the EU-15 countries only and therefore does not allow full "international comparisons" to be made. However, this is disclosed and the Department considers it would not be feasible for it to expand the analysis to include countries outside the EU-15 as comparable data does not currently exist.

55. At the next opportunity, the Department should update its Measurement Annex to disclose the success criteria currently recorded in its PSA 6 Delivery Plan. The



Department should also highlight in its Measurement Annex that data are now supplied by DECC and not Eurostat (further to the October 2008 MoG changes and the inception of DECC). Furthermore, additional disclosures should be provided in the Measurement Annex to define what constitutes 'substantial' movement when measuring performance.

56. The indicator uses the same data and measurement outcome as DECC indicator DSO 3.3. The Department has disclosed in its Autumn Performance Report that the "indicator is similar to, but does not replicate DECC's DSO indicator 3.3". However, the Department does not disclose the differences between these indicators, although the same data are used.

## **Indicator 5**

### **Total benefit/cost ratio of new regulations**

#### **Conclusion: AMBER (Systems)**

57. At the time of our review we concluded that the data system underlying this indicator is broadly appropriate, but needs strengthening to ensure that remaining risks are adequately controlled.

#### **Characteristics of the data system**

58. At the time of our review, this data system had been finalised but had not yet reported substantive results as the relevant reporting window has not yet been reached. The Department reported the indicator's performance for the first time in its 2009 Autumn Performance Report and therefore the position on this indicator has moved on since our review.

59. The data system uses information from the Impact Assessment Library, which has been created to provide easy access into the considerations and analysis that Government has undertaken when introducing new regulation.

60. The Library contains Impact Assessment forms submitted by Government Departments for all possible and actual government interventions. The Better Regulation Executive (BRE) is responsible for managing the Impact Assessment Library. The forms are populated with information about the regulation, by Government Department policy staff.

61. Each Government Department has a Better Regulation Unit and Chief Economist, who are responsible for the review of information prior to sign off by a Minister. This information is subsequently submitted on to the Impact Assessment Library. Each Department is responsible for ensuring the accuracy of information submitted to the Library. The Departments' Better Regulation Units attend Peer Review working groups to ensure consistency and robustness over the process of submitting information to the Library. The Department extracts the cost and benefit information from the Impact Assessment forms, aggregates the data into a benefit cost ratio, and report against the indicator.

#### **Findings**

62. At the time of our review there was a discrepancy in the measure of total quantifiable benefits, in that the indicator's Measurement Annex excluded any benefits derived from one-off, non-recurring events. A review conducted by BRE concluded this was not an accurate reflection of measuring benefits. We understand the definition has since been revised to incorporate one-off/non-recurring benefits identified.

63. The data system is in place, however at the time of our review performance had not yet been reported. Since our review, the position on this indicator has moved

on as the Department has reported the indicator's performance for the first time in its 2009 Autumn Performance Report.

64. The Department has sought to identify and mitigate risks to the effective operation of this data system, such as the identification of insufficient data and the use of standard measures as compensation.
65. However, the 2009 NAO review of Impact Assessments considered that there were several areas of concern with the use of Impact Assessments as a source of data, particularly with the underlying supporting data for these Impact Assessments in terms of presentation, completeness and accuracy.

## **Indicator 6**

### **Percentage by which administrative burdens are reduced across Government**

#### **Conclusion: AMBER (Systems)**

66. We have concluded that the data system underlying this indicator is broadly appropriate but needs strengthening to ensure that remaining risks around the age of data in the HMRC model and assurances over assumptions made by HMRC are adequately controlled. The Department also needs to improve disclosures on some limitations in the data.

#### **Characteristics of the data system**

67. There are two aspects of this indicator and performance is therefore determined by two data streams. The first aspect is the reduction in administrative burden by 25% for all 19 Government Departments by 2010 under the Administrative Burden Reduction Programme operated by the Better Regulation Executive ('BRE'). As part of this commitment, The Department is also required to reduce administrative burden by 25%.

68. The second aspect of this is the measurement of the reduction in administrative burden by 10% to 15% for HMRC by 2010. The measurement of this aspect of the indicator is operated wholly by HMRC and the Department therefore places full reliance on the data quality arrangements in place at HMRC. However, this is still a key aspect of the indicator for which the Department is responsible for in line with the PSA 6 delivery agreement.

69. The initial baseline of administrative burden imposed on businesses by 19 Government Departments and HMRC was measured using the Standard Cost Model by external consultants appointed by the respective Departments. The Standard Cost Model is used to provide a simplified, consistent method for estimating the administrative costs imposed on business by Government Departments. It aims to provide estimates that are consistent across policy areas which are indicative rather than statistically representative.

#### **Government Departments**

70. Each Government Department submits all planned and actual changes on the administrative burden baseline to the BRE via templates called "trackers". These templates are completed on a monthly basis to identify changes in administrative burdens. Each Government Department has a Better Regulation Unit which is responsible for completing these templates, using the Standard Cost Model.

71. There are arrangements in place for collecting data, such as the use of Standard Cost Model guidance issued to all Departments, consultation with stakeholders regarding the methods in which data are collected with Better Regulation Units in Government Departments. Sufficient levels of review and challenge over data

collected are also in place, for example, the BRE developed the External Validation Panel, which scrutinises the savings reported by Government Departments to source data to gain assurance over its accuracy.

72. The BRE calculates the net change to the administrative burden baseline for each Government Department, aggregates the total reduction in administrative burden and report against the indicator. There are arrangements in place for processing and analysing these data, such as an assessment of risk, comprehensive guidance and training to staff involved, and adequate allocation of responsibilities between preparation and review of information prepared, for example, the involvement of the External Validation Panel which scrutinises the administrative burden reduction reported by Government Departments.

### HMRC

73. The objective of this part of the indicator is to measure the impact on UK businesses of meeting their tax obligations so as to comply with HMRC's requirements. The target covers administrative burden resulting from completing forms and returns, HMRC's audits and inspections and additional burdens (that are not covered by the first two categories). HMRC's main focus has been to reduce the impact of forms and returns because they represent approximately 68% of the total administrative burden and are the main way that businesses interact with the tax system.
74. HMRC estimates the financial impact of each burden using data provided by the Standard Cost Model (SCM) database, which was developed in 2005. The SCM database was developed to measure the estimated financial impact on businesses of complying with the administrative burdens in place in 2005. The resultant total administrative cost forms the baseline against which performance is measured.
75. Changes in the administrative burden are inputted into the model as changes in underlying assumptions, for example, if a form is simplified HMRC will estimate the reduction in time taken to complete it and the resulting cost savings. The model then recalculates the administrative burden and the difference in comparison to the baseline is counted towards the administrative burdens target.
76. HMRC estimates the impact of each obligation using the SCM database, and collates the total impact for all obligations on a quarterly basis to estimate the overall administrative burden.

### **Findings**

#### Government Departments

77. The system is properly specified as it is relevant to what the Department is aiming to achieve. The data system and associated data streams cover the significant aspects of performance expressed in the indicator. Although it is a complex data system, it is well defined and there is evidence of support provided by the Better

Regulation Executive to ensure that data will be collected consistently across all 19 Government Departments.

78. The Department has sought to identify, mitigate and address risks to the effective operation of this data system. For example, the Department has recognised the main risk to data reliability arising from the use of indicative estimates calculated from the Standard Cost Model; there are also adequate review and challenge arrangements provided by the use of the External Validation Panel. Therefore, data collection, processing and analysis arrangements are robust and the system produces data that is comparable. The arrangements in place are documented, and therefore, verifiable. However, the imprecision inherent in the original measurement methodology means that the estimates of administrative burdens are indicative in nature due to the small sample size used.
79. Performance results reported in its 2009 Autumn Performance Report are clear and transparent as the use of indicative estimates, which are not statistically representative, has been disclosed. The narrative provides a reasonable assessment of performance and the quality of the data system in place.
80. The NAO reported in 2009 that the reported reductions in administrative burdens claimed were not calculated on a consistent basis. Departments used different approaches to estimating the value of savings, including variations in:
- the detail of calculations and the extent to which businesses were asked to verify them;
  - the treatment of common issues, such as expected take-up of revised requirements; and
  - procedures to monitor and challenge claimed savings.
81. The introduction of the External Validation Panel has gone some way to addressing these issues. Its introduction gives greater assurance that departments have collected evidence and tested assumptions underpinning the claimed savings and have communicated savings to business. However, the Department has still to disclose these limitations in data, and also the limitations in data provided by HMRC.

#### HMRC

82. HMRC uses the estimates generated from its Impact Assessment process to determine the value of the net impact on administrative burden, rather than the actual burden reduction (post implementation of the initiative) on taxpayers. HMRC has informed us that it intends to carry out post-implementation policy evaluations, the results of which will help it to assess whether the estimated impacts have materialised in fact.
83. HMRC commissions independent reviews on some of the Impact Assessments, to gain assurance that the assumptions used are reasonable.

84. HMRC does make use of consultations on some of its Impact Assessments before implementation. When possible, i.e. if the measure is not subject to Budgetary confidentiality, the Impact Assessments are set out in a consultation document to allow businesses and the public to comment on the analysis and assumptions.
85. The SCM database, which HMRC uses to generate the estimated impacts of each obligation, uses data from May 2005. The Department also follows cross Government methodology and reports Administrative Burdens savings values in 2005 values. There are risks that age of the data may not reflect the current value of the administrative burden. HMRC recognises this limitation but has not quantified the impact on the reported data, nor disclosed this key limitation within its reported data. We recognise that there are a number of issues (such as re-baselining the administrative burdens) and significant costs, associated with updating information within the SCM.
86. HMRC reports performance against the target on a quarterly basis using estimates generated directly from the SCM. However, from a sample of cases, which we selected for detailed testing, we noted minor discrepancies between performance reported within published data and information from the SCM. These minor discrepancies would not significantly impact on existing published performance.